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Rapides Primary Health Care Center, Inc.

Alexandria, Louisiana

FINANCIAL STATEMENTS

AND

AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2002

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4/23/03

Rapides Primary Health Care Center, Inc.
Alexandria, Louisiana

FINANCIAL STATEMENTS AND AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rapides Primary Health Care Center, Inc.

I have audited the accompanying statement of financial position of Rapides Primary Health Care Center, Inc., as of September 30, 2002, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Rapides Primary Health Care Center, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Detailed property and equipment records have not been maintained and could not be reconciled to control accounts. Accordingly, it was not practical for me to extend my audit of such records beyond the amounts recorded.

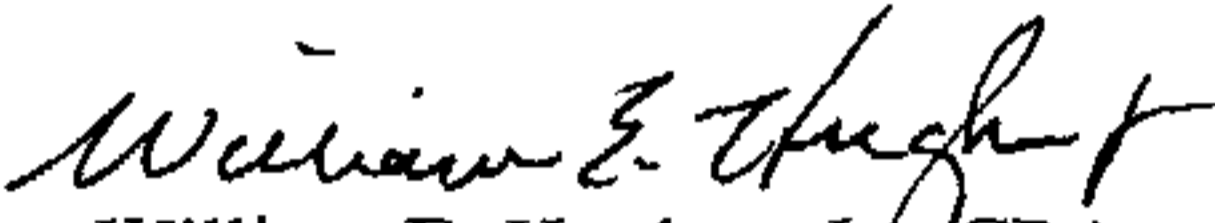
In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had property and equipment records referred to in the preceding paragraph been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the financial position of Rapides Primary Health Care Center, Inc., as of September 30, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, Rapides Primary Health Care Center, Inc., filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code effective May 10, 2002, and was authorized to continue managing and operating the business as a debtor in possession subject to the control and supervision of the Bankruptcy Court. At report date, the plan for reorganization has not been presented to the Bankruptcy Court;

however, it is management's opinion that the reorganization plan will be accepted by both the Court and creditors by June 30, 2003.

In accordance with Government Auditing Standards, I have also issued our report dated March 27, 2003, on my consideration of Rapides Primary Health Care Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the basic financial statements of Rapides Primary Health Care Center, Inc., taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, to the basic financial statements taken as a whole.


William E. Hughes, Jr., CPA
March 27, 2003

RAPIDES PRIMARY HEALTH CARE CENTER, INC.
ALEXANDRIA, LOUISIANA

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2002

ASSETS

Current Assets

Cash	\$ 9,253
Patient Accounts Receivable (net of estimated uncollectible amount of \$4,613)	<u>142,486</u>
Total Current Assets	151,739

Property and Equipment

Building	1,028,356
Equipment and furniture	306,874
Software	16,146
Land	28,039
Less: Accumulated Depreciation	<u>(225,014)</u>
Total Property and Equipment, net	<u>1,154,401</u>

Total Assets	<u><u>\$ 1,306,140</u></u>
---------------------	-----------------------------------

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 63,576
Bank Overdraft	1,957
Payroll Taxes Payable	8,748
Other Liabilities	<u>6,316</u>
Total Current Liabilities	80,597

Long-Term Liabilities

Notes Payable	223,118
Accrued Interest Payable	<u>133,654</u>
Total Long-Term Liabilities	<u>356,772</u>
Total Liabilities	437,369

Net Assets:

Unrestricted	<u>868,771</u>
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Total Liabilities and Net Assets	<u><u>\$ 1,306,140</u></u>
-----------------------------------------	-----------------------------------

See Accompanying Notes to Financial Statements

**RAPIDES PRIMARY HEALTH CARE CENTER, INC.
ALEXANDRIA, LOUISIANA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

UNRESTRICTED NET ASSETS

<u>Revenues and Support</u>	
Patient Service Revenue	\$ 386,915
Federal Sect. 330 Grant	446,501
Community Outreach Grant	10,000
Public Contributions	1,000
Other Income	84
Interest Income	66
Total Revenues and Support	<u>844,566</u>
<u>Expenses</u>	
Salaries	293,338
Payroll Taxes	20,077
Employee Benefits	37,440
Consulting Fees	23,668
Contract Labor - Administrative	57,365
Legal and Professional	44,663
Dues and Fees	20,278
Supplies	34,069
Hospital and Lab Fees	7,200
Repairs and Maintenance	37,093
Insurance	29,509
Office Expenses	9,506
Utilities	8,528
Telephone	13,703
Travel	9,445
Continuing Education and Training	14,138
Marketing	7,642
Computer Expenses	7,847
Depreciation	47,406
Bad Debt Expense	1,230
Interest Expense	42,768
Penalties	6,823
Total Expenses	<u>773,736</u>
Change in Unrestricted Net Assets	70,830
Prior Period Adjustment	115,306
Net Assets - Beginning	<u>682,635</u>
Net Assets - Ending	<u><u>\$ 868,771</u></u>

See Accompanying Notes to Financial Statements

**RAPIDES PRIMARY HEALTH CARE CENTER, INC.
ALEXANDRIA, LOUISIANA**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Unrestricted Net Assets	\$ 70,830
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operations	
Depreciation	47,406
Bad Debt Expense	1,230
 (Increase) Decrease in Operating Assets:	
Accounts Receivables	(111,299)
Prepaid Expenses	16,256
 Increase (Decrease) in Operating Liabilities:	
Accounts Payable	19,001
Bank Overdraft	1,957
Payroll Taxes Payable	7,907
Other Liabilities	6,316
Accrued Interest Payable	41,535
Net Cash from Operating Activities	<u>101,139</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Equipment, Furniture and Software	(137,991)
-----------------------------------------------	-----------

CASH FLOWS FROM FINANCING ACTIVITIES

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,852)
---------------------------------------------------------	----------

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>46,105</u>
-----------------------------------------------------	---------------

CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 9,253</u></u>
-----------------------------------------------	------------------------

Supplemental Disclosure: Cash Paid for Interest \$ 42,768

See Accompanying Notes to Financial Statements

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) NATURE OF ACTIVITIES

Rapides Primary Health Care Center Inc., hereinafter referred to as the **Clinic**, was organized under the provisions of R.S. 1950, title 12, Chapter 2, in the Non-Profit Corporations Book of the State of Louisiana.

The **Clinic** is organized to provide efficient and effective health care through the operation of a health delivery system designed to meet the medical needs of the community, i.e., early detection diagnosis, and treatment of illnesses and injuries; to facilitate an understanding of the desirability of initiating a program of preventive medicine; and to generally improve and promote the improvement of the community, civilly and socially. The **Clinic** provides comprehensive primary health care to area residents, with particular care for the socio-economically disadvantaged. The area served is Central Louisiana. The services are provided through an outpatient **Clinic** with a referral program, health education, and limited medical services for hospitalization.

In January 2001, the **Clinic** and Rapides Health Care System, L.L.C., entered into a management agreement whereby Rapides Health Care would supply the management and financial support to enable the **Clinic** to continue serving the medical needs of the under served population. Under this agreement, Rapides Health Care managed the **Clinic**'s operations and development, provided human resource management, accounting and related financial support , and provide billing and collection services. On February 28, 2002, by mutual agreement both parties elected not to renew the management agreement.

Effective March 1, 2002, the **Clinic** received a notice of grant award from the Department of Health and Human Services – Health Resources & Services Administration. The U.S. Public Health Service Act's Section 330 Grant authorizes the **Clinic** to automatically qualify as a Federally-Qualified Health Center (FQHC). The FQHC status designates the **Clinic** as a unique type of health care provider. It requires Medicaid and Medicare to cover the beneficiaries of certain health care services and to reimburse the entity at reasonable cost.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) REPORTING ENTITY

Financial statement presentation follows the requirements of the Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Clinic is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The accompanying financial statements of the **Clinic** present the financial position and changes in net assets of the unrestricted fund. All activities of the **Clinic** are included in these financial statements.

Basis of Accounting

The financial statements of the **Clinic** have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

(C) FUND ACCOUNTING

Unrestricted Net Assets

Accounts for resources that can be expended currently. This fund represents the part of net assets that have not been restricted for identified purposes by donors and grantors. Unrestricted net assets also include assets whose use is contractually limited.

(D) BUDGETS

A budget outlining grant awards, program revenues and expenses is submitted prior to the start of each fiscal year for approval by the Board of Directors. Budget amendments and changes in State Grant Spending are allowed by prior approval from the Board of Directors.

(E) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(F) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost for purchased assets or at fair market value on the date of any donation. Depreciation is provided in the financial statements over the estimated useful lives of the depreciable assets on the straight-line basis. The following estimated useful lives are generally used:

Building	40 years
Furniture and fixtures	5 - 20 years
Equipment	5 - 15 years
Software	3 - 5 years

Expenses for additions, major renewals and betterments are capitalized and expenses for maintenance and repairs are charged to operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited as charged to operations currently.

The historical cost of the buildings and other fixed assets were not accurately recorded in the financial statements when the Clinic started operations in 1996. Records are not available to retroactively prepare a historical cost fixed asset inventory; therefore, auditing procedures could not be applied to attest those amounts previously recorded. It is anticipated that once these assets are fully depreciated, the qualification of the independent auditor's opinion with regard to these assets will be released.

(G) COMPENSATED ABSENCES

Rapides Primary Health Care Center's employees are entitled to paid vacation depending on length of service. Upon separation of employment, employees who have completed a year of service will be reimbursed for unused vacation hours upon proper notice and satisfactory performance. Prior to the Clinic receiving the Sect. 330 grant, March 1, 2002, all labor was provided contractually by the management agreement with Rapides Health Care System, L.L.C. At September 30, 2002, no employee had vested vacation hours that met criteria for vesting vacation benefits. Accordingly, no amounts are recorded in the financial statements.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(H) UNCOLLECTIBLE ACCOUNTS

The **Clinic** estimates an allowance for uncollectible accounts receivable based on prior experience of management.

(I) CASH AND CASH EQUIVALENTS

For the purpose of the financial statements, the **Clinic** considers all demand deposits and time deposits with an initial maturity of three months or less to be cash equivalents.

(J) INCOME TAX STATUS

The **Clinic** is exempt from federal income tax under Section 501 (C) (3) of the Internal Revenue code. However, income from certain activities not directly related to the **Clinic's** tax-exempt purpose is subject to taxation as unrelated business income. In addition, the **Clinic** qualifies for the charitable contribution deduction under Section 190(b) (1) (A) and has been classified as an organization that is not a private foundation under Section 509(a) (2).

(K) RECOGNITION OF REVENUE

Medical service revenues are recognized when earned. Service revenues earned and unbilled are included in accounts receivable and amounted to \$386,915 at September 30, 2002.

NOTE 2 CASH

At September 30, 2002, the Rapides Primary Health Care Center, Inc. has cash and cash equivalents (book balances) totaling \$9,157 as follows:

Demand deposits	<u>\$ 9,157</u>
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These deposits are stated at cost, which approximates market.

At September 30, 2002, the **Clinic** has \$31,717 in deposits (collected bank balances). All deposits are secured from risk by federal deposit insurance.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 3 PROPERTY AND EQUIPMENT

A summary of property and equipment and accumulated depreciation at September 30, 2002, is provided:

	<u>Property and Equipment</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	
Land	\$ 28,039			\$ 28,039
Building	1,028,356			1,028,356
Software	500	15,646		16,146
Furniture & Equip.	<u>184,529</u>	<u>122,345</u>		<u>306,874</u>
Totals	<u>\$ 1,241,424</u>	<u>\$ 137,991</u>	<u>\$ -0-</u>	<u>\$ 1,379,415</u>

	<u>Accumulated Depreciation</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	
Building	\$ 105,883	\$ 25,709		\$ 131,592
Software	167	2,760		2,927
Furniture & Equip.	<u>71,558</u>	<u>18,937</u>		<u>90,495</u>
Totals	<u>\$ 177,608</u>	<u>\$ 47,406</u>	<u>\$ -0-</u>	<u>\$ 225,014</u>

NOTE 4 RETIREMENT PLAN

A SIMPLE-IRA plan was established by the Clinic on August 28, 2002. The SIMPLE-IRA is a tax-deferred retirement plan where each employee establishes an IRA account that both employee and employer contributions are deposited. The Clinic makes matching contributions up to 3% of an employee's compensation. For the fiscal year ending September 30, 2002, the Clinic incurred \$1,735 in pension expense which is recorded in employee benefits.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 5 NOTES PAYABLE

The note payable obligations of the **Clinic** at September 30, 2002 are as follows:

10.50%, notes payable with Bank One; The note was payable in full on December 16, 1997. The principal balance at September 30, 2002 is \$92,119.

The **Clinic** also has a note to the Rapides Finance Authority, which is payable in full as of August 5, 1998, in the amount of \$130,999.

Both Bank One and The Rapides Finance Authority have obtained judgments against the Clinic due to default. At September 30, 2002, the accrued interest and legal costs incurred were \$158,590 (also see Note 9).

NOTE 6 FEDERAL GRANT

The **Clinic** operates principally from a grant awarded by the Federal government and generates revenues through patient fee charges. In general, the objectives of the Community Health Centers (CHC) program, Public Health Service Act Sect. 330 Grant, are to provide to populations that would ordinarily not have access to health care (1) primary and preventative health services and (2) referrals to other services, such as hospital and substance abuse services, and to assist these underserved populations to establish eligibility under entitlement programs. For the fiscal year ended September 30, 2002, the Clinic expended \$446,501 in grant funds to support these objectives.

NOTE 7 FUNCTIONAL EXPENSE CLASSIFICATION

In accordance with (FASB) NO. 117, the following column depicts all the expenses for the year ended September 30, 2002 in their functional categories.

	UNRESTRICTED GENERAL FUND
Program Services	\$ 450,767
Administrative	<u>322,969</u>
Total	<u>\$ 773,736</u>

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 8 PATIENT ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2002 consisted of the following:

Accounts Receivable - Medical	\$ 55,513
Accounts Receivable – Dental	24,084
Accounts Receivable – Retroactive Medicaid Adjustment	67,502
Less: Allowance for un-collectibles	<u>(4,613)</u>
Total	<u>\$142,486</u>

Effective May 22, 2002, the Clinic was classified as a Federally Qualified Health Center (FQHC). It is entitled to receive cost-based reimbursement for services rendered to Medicaid patients. This cost-based reimbursement rate was not being received when the Clinic attained FQHC status. Subsequent to September 30, 2002, the Clinic received authorization to invoice Medicaid at the higher, cost-reimbursed rate for claims originating at the inception of FQHC status. The total net amount due for claims with service periods prior to September 30, 2002 was \$ 67,502.

NOTE 9 CONTINGENCIES

The Rapides Primary Health Care Center, Inc. evaluates contingencies based upon the best available evidence. The **Clinic** believes that no allowance for loss contingencies is considered necessary.

The principal contingencies are described below:

Grant Awards

The ability of the **Clinic's** continued operations is contingent upon continued funding from the Department of Health and Human Services, Section 330 grant. The grant has been approved for the following fiscal year.

Chapter 11, Bankruptcy Filing

On May 10, 2002, the Clinic filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code and was authorized to continue managing and operating the business as a debtor in possession subject to the control and supervision of the Bankruptcy Court. As discussed in Note 5, the Clinic defaulted and judgments rendered to Bank One and Rapides Finance Authority on loans of \$92,119 and \$130,999, respectively. Total accrued interest through September 30, 2002, was \$133,654. The judgment for Bank One continues to accrue at the legal rate

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002**

NOTE 9 CONTINGENCIES (continued)

of 18%, while Rapides Finance Authority accrues at 10%.

The Bankruptcy Court has held in interim proceedings to protect the Federal grant and related program income from satisfying these obligations because this cost is disallowed under the grant's terms and conditions. A joint hearing has been scheduled for April 23, 2003, for the Bankruptcy Court to consider both the creditors' and debtor's plans for reorganization. It is management's opinion that a resolution will be reached that satisfies the creditors' claims and provides for continued operations of the Clinic.

Physician Guarantee Loan

On December 1, 2001, Rapides Healthcare System, LLC, d/b/a Rapides Regional Medical Center (RRMC) and an employee of the Clinic, Dr. Nafees Khan, entered into a physician loan agreement for monies previously advanced to Dr. Khan, \$143,352.53 for the Clinic's operations. The term of the loan is 48 months with a debt service of \$3,482.86 per month. RRMC will forgive the monthly payments contingent upon Dr. Khan maintaining his medical practice in the Alexandria area. The Clinic has guaranteed the loan to RRMC if these conditions are not met and there is subsequent default.

NOTE 10 PRIOR PERIOD ADJUSTMENT

The Physician Guarantee Loan of \$115,305 was recorded in error on the Clinic's financial statements at September 30, 2001. Accordingly an adjustment to the September 30, 2002, financial statements was made to increase unrestricted net assets by \$115,305.

RAPIDES PRIMARY HEALTH CARE CENTER, INC
Alexandria, Louisiana

Supplementary Information

OTHER REPORTS REQUIRED BY
GOVERNMENTAL AUDITING STANDARDS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Rapides Primary Health Care Center, Inc.

I have audited the financial statements of Rapides Primary Health Care Center, Inc. as of and for the year ended September 30, 2002, and have issued my report thereon dated March 27, 2002. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Rapides Primary Health Care Center, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2002-02 and 2002-03.

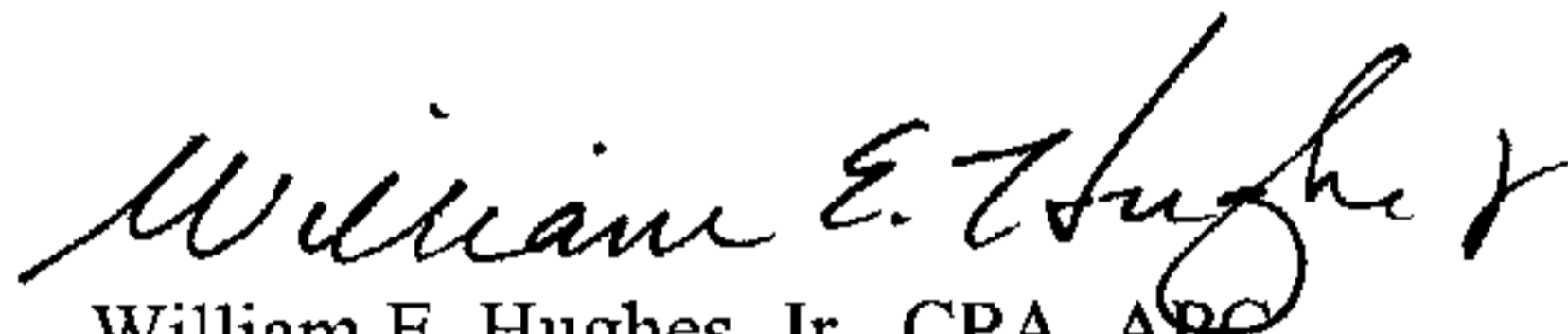
Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rapides Primary Health Care Center, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect

Rapides Primary Health Care, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item: 2002-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. However, the reportable conditions described above, I consider item 2002-01 to be a material weaknesses.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


William E. Hughes, Jr., CPA, APC
March 27, 2003

WILLIAM E. HUGHES, JR., APC
CERTIFIED PUBLIC ACCOUNTANT

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Rapides Primary Health Care, Inc.

Compliance

I have audited the compliance of Rapides Primary Health Care Center, Inc., (a nonprofit organization) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended September 30, 2002. Rapides Primary Health Care Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Rapides Primary Health Care Center, Inc.'s management. My responsibility is to express an opinion on Rapides Primary Health Care Center, Inc.'s compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rapides Primary Health Care Center, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Rapides Primary Health Care Center, Inc.'s compliance with those requirements.

In my opinion, Rapides Primary Health Care Center, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2002. However, the results of my

auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2002-01, 2002-02, 2002-03, and 2002-04

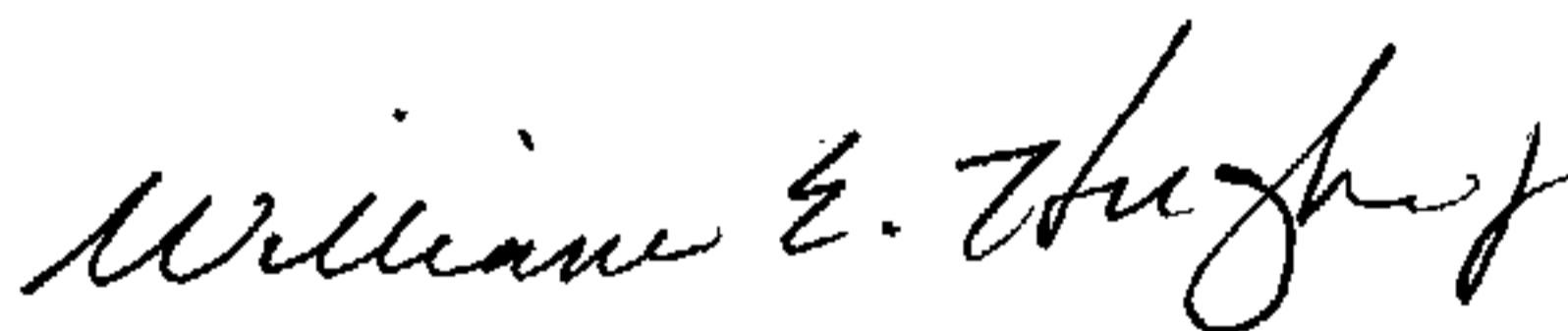
Internal Control Over Compliance

The management of Rapides Primary Health Care Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Rapides Primary Health Care Center, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted a certain matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Rapides Primary Health Care Center, Inc.'s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2002-01.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, of the reportable conditions described above, I consider item 2002-01 to be a material weaknesses.

This report is intended solely for the information and use of the board of directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



William E. Hughes, Jr., CPA
March 27, 2003

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2002**

<u>Federal grantor/program title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
Bureau of Primary Health Care Health Care Cluster	93.224	N/A	1 H80CS00244-01	\$ <u>446,501</u>
Total Expenditures of Federal Awards				\$ 446,501

See accompanying notes to Schedule of Expenditures of Federal Awards and Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2002**

(1) General

The accompanying schedule of expenditures of federal awards presents the activity of all Federal award programs of Rapides Primary Health Care Center, Inc.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

(3) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree, in all material respects, with the amounts reported in the related Federal financial reports.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

Section 1 – Summary of Auditor's Results

- A. The type of report issued on the general purpose financial statements: qualified opinion.
- B. Reportable conditions in internal control were disclosed by the audit of the financial statements: yes Material weakness: yes
- C. Noncompliance which is material to the general purpose financial statements: no
- D. Reportable conditions in internal control over major programs: yes Material weakness: yes
- E. Type of report issued on compliance for major programs: unqualified opinion.
- F. Any audit findings which are required to be reported under Section 510 (a) of OMB Circular A-133: no.
- G. Major program:
 - U. S. Department of Health and Human Services, Bureau of Primary Health Care:
Section 330, Public Health Service Act. (CFDA 93.224)
- H. Dollar threshold used to distinguish between Type A and B programs: \$300,000.
- I. Auditee qualified as a low-risk auditee under Section 530 of OMB-Circular 133: no.

**Section II – Findings Related to the Financial Statements Reported in Accordance
with Government Auditing Standards**

2002-01 Monthly Reconciliation of Accounts Receivable

Criteria

Monthly reconciliation of the accounts receivable subsidiary ledger to the control account will timely detect posting errors and allow management to follow-up on delinquent accounts.

Condition

Procedures were not in place to print monthly accounts receivable aging reports and reconcile to the general ledger.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

Cause

Management had not placed this procedure in effect.

Effect

Accounts receivable may not be collected and financial statements may be incomplete.

Recommendation

I recommend that Management establish a procedure for monthly reconciliation of the accounts receivable subsidiary ledger to the control account on the general ledger.

2002-02 Payroll Taxes Not Timely Paid

Criteria

Payroll tax deposits are required to be timely paid by the 15th of the following month that the payroll liability was incurred.

Condition

Payroll taxes were deposited beyond the deadline for the Clinic's third quarter payroll period.

Cause

Procedure to file timely payroll tax deposit was not followed.

Effect

Penalties and interest are incurred that are disallowed by the Federal grant.

Recommendation

I recommend that Management establish procedures to ensure that all payroll tax deposits are timely paid.

2002-03 Form 990 in Prior Year Not Timely Filed

Criteria

IRS Form 990, Return of Organization Exempt from Income Tax, is required to be timely filed to the Internal Revenue Service.

Condition

Prior year Form 990 was not timely filed.

RAPIDES PRIMARY HEALTH CARE CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

Cause

Procedure to timely file Form 990 was not adhered to.

Effect

Disallowed penalties and interest are incurred.

Recommendation

I recommend that Management follow their procedure to timely file Form 990.

Section III – Findings and Questioned Costs Related to Federal Awards

2002-04 Applications for Sliding Fee Services Were Incomplete

Criteria

Patients receiving benefits within the framework of the Section 330 grant are required to have an approved application on file that documents their qualifications.

Condition

Of the 26 patient encounters reviewed, four (4) did not have the application in file.

Cause

Procedure to properly document patients' qualifications for sliding fee benefits were not adhered to.

Effect

The Clinic is not in compliance with the Federal grant's eligibility requirements for sliding fee benefits.

Recommendation

I recommend that the Clinic adhere to their procedures to ensure that patients eligible for sliding fee benefits have the proper documentation within their files.

**RAPIDES PRIMARY HEALTH CARE CENTER, INC.
ALEXANDRIA, LOUISIANA**

Summary Schedule of Prior Audit Findings and Questioned Costs

Auditor Reference

<u>Number</u>	<u>Status</u>
99-1 Bank Reconciliations	Corrected
99-2 Financial Statements	Corrected
99-3 Results of Operations	Corrected
99-4 Property Tags	Corrected for new property acquisitions
99-5 Asset Inventory List	Corrected for new property acquisitions

**RAPIDES PRIMARY HEALTH CARE CENTER, INC.
ALEXANDRIA, LOUISIANA**

**CORRECTIVE ACTION PLAN
SEPTEMBER 30, 2002**

Bureau of Primary Health Care
Office of Grants Management
4350 East West Highway, 11th Floor
Bethesda, MD 20814

Dear Sir or Madam:

Rapides Primary Health Care Center, Inc., herein submits the following corrective action plan for the year ended September 30, 2002.

Name and address of independent public accounting firm:

William E. Hughes, Jr., CPA, APC
1815-B Military Hwy.
Pineville, LA 71360

Audit period:

September 30, 2002

The findings from the September 30, 2002 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT AUDIT FINDINGS

REPORTABLE CONDITIONS

Finding 2002-01 Monthly Reconciliation of Accounts Receivable

Recommendation

I recommend that Management establish a procedure for monthly reconciliation of the accounts receivable subsidiary ledger to the control account on the general ledger.

Action Taken

We concur with the recommendation, and action will be taken to implement revisions to the accounts receivable reconciliation procedures immediately. We plan to implement a new patient management system and accounting software to further strengthen controls and oversight.

Finding 2002-02 Payroll Taxes Not Timely Paid

Recommendation

I recommend that Management establish procedures to ensure that all payroll tax deposits are timely paid.

Action Taken

We concur with the recommendation and have implemented procedures as well as retaining a new staff accountant.

Finding 2002-03 Form 990 in Prior Year Not Timely Filed

Recommendation

I recommend that Management follow their procedure to timely file Form 990.

Action Taken

We concur with the recommendation and have implemented a procedure for the preparer to take control of ensuring that it is timely submitted to the Internal Revenue Service.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 2002-04 Applications for Sliding Fee Services Were Incomplete (CFDA 93.224)

Recommendation

I recommend that the Clinic adhere to their procedures to ensure that patients eligible for sliding fee benefits have the proper documentation within their files.

Action Taken

We concur with the recommendation and have implemented a procedure to ensure that all patients who apply for sliding fee benefits have the proper documentation in their file. In addition, our Fiscal Services department will assume full responsibility for all sliding fee assessments.

If the Bureau of Primary Health Care has questions regarding this plan, please contact Mr. Randolph Fisher, Executive Director, at (318) 487-4400 ext. 3027.

Sincerely,



Rapides Primary Health Care Center, Inc.
Randolph Fisher
Executive Director